

Scotland Gas Networks Notice of LDZ Transportation Charges 2024/25

Effective from 1 April 2024

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1 Introduction

This publication gives Notice of the LDZ transportation charges expected to apply from 1 April 2024 for the use of Scotland Gas Networks gas distribution network, as required by Standard Special Condition A4 of the Gas Transporter Licence. This document does not override or vary any of the statutory, licence or Network Code obligations upon Scotland Gas Networks.

For more information on the charges set out in this document, please contact via email: -
pricing.team@sgn.co.uk

2 Summary of Tariff Movements

Based on the latest available forecasts of allowed and collected revenue there is a requirement for an overall decrease of 3.7% to average charge levels.

The key components of movement are:

Base revenue a decrease of 0.2% is a result of a reduction in Price Control Deliverables (PCDs) and Uncertainty Mechanisms (UMs); a slight reduction in totex and tax allowance, the main driver for which is the inclusion of super tax forecast in 2024/25. These reductions are offset by increases in forecast NIA/VCMA allowance spend.

Pass-through costs include a significant reduction of 6.8% in forecast costs due to three main contributing factors, a reduction in the wholesale gas price (impacting shrinkage cost), SoLR claims directed by Ofgem and National Grids NTS costs.

Inflation the headline inflation forecast impacting 2024/25 tariffs is currently 3.0%. This is based on the Office of Budget Responsibility (OBR) forecast from November 2023, in line with Ofgem's methodology. There is currently a forecast true up of 1.0% relating to an updated view of 2023/24 inflation based on revenue levels at the time of setting tariffs. Overall inflation impact on tariffs is a 3.1% increase as not all components of revenue are subject to inflation increases.

Adjustment term (ADJt) sees a decrease of 8.9%. Tariffs are set on forecasts, therefore every input results in an adjustment to prior year forecast revenue via a true up mechanism, the ADJt. 2024/25 includes significant levels of adjustments to prior years. The main drivers for this are tax, primarily due to updated super tax forecasts, prior year inflation falling away (2023/24 included a material true up of inflation related to 2022/23) and a reduction in shrinkage costs vs latest forecasts for 2023/24. These are partially offset by increases in totex when compared to 2022/23, impacting 2023/24 tariffs.

Impact of demand increases rates on average by 8.9% due to the drop in demand. This is primarily a result of the increase in wholesale gas price the UK has experienced in the past 12-18 months.

3 Transportation Charges to Apply from 1 April 2024

3.1 LDZ System Charges

The standard LDZ system charges consist of capacity and commodity charges with separate functions for directly connected supply points and for Connected System Exit Points (CSEPs). As set out in DNPC08, with effect from 1 April 2012 the separate functions for CSEPs ceased and the same charges apply to CSEPs as to directly connected supply points.

Where the LDZ charges are based on functions, these functions use Supply Point Off take Quantity (SOQ) in the determination of the charges. At Class 1 and 2 (daily metered) supply points the SOQ is the registered supply

point capacity. For Class 3 and 4 (non-daily metered) supply points, the SOQ is calculated using the supply point End User Category (EUC) and the appropriate load factor.

3.1.1 Directly Connected Supply Points and CSEPs

The unit charges and charging functions used to calculate charges to directly connected supply points and CSEPs are set out below.

LDZ System Charge Codes-Directly Connected Supply Points and Connected System

Directly Connected		CSEPS	
Invoice	Charge Code	Invoice	Charge Code
LDZ Capacity	ZCA	Capacity	891
LDZ Commodity	ZCO	Commodity	893

LDZ System Capacity Charges-Directly Connected Supply Points and Connected Systems

Charge Band (kWh/annum)	Capacity p/peak day kWh/day
Up to 73,200	0.2612
73,200 to 732,000	0.2351
>732,000 kWh	$1.5178 \times \text{SOQ}^{-0.2338}$
Subject to a minimum rate of	0.0116
Minimum reached at SOQ of	1,131,635,108 kWh

LDZ System Commodity Charges-Directly Connected Supply Points and Connected Systems

Charge Band (kWh/annum)	Commodity p/kWh
Up to 73,200	0.0374
73,200 to 732,000	0.0335
>732,000 kWh	$0.2731 \times \text{SOQ}^{-0.2597}$
Subject to a minimum rate of	0.0017
Minimum reached at SOQ of	311,836,363 kWh

3.1.2 CSEPs Charging

LDZ System charges for transportation to Connected System Exit Points (CSEPs) are identical to those for transportation to direct loads.

In the calculation of the LDZ charges payable for CSEPs, the unit commodity and capacity charges are based on the supply point capacity equal to the CSEP peak day load for the completed development irrespective of the actual stage of development.

The SOQ used is therefore the estimated SOQ for the completed development as provided in the appropriate Network Exit Agreement (NExA). For any particular CSEP, each shipper will pay identical LDZ unit charges



regardless of the proportion of gas shipped. Reference needs to be made to the relevant NEXA or CSEP ancillary agreement to determine the completed supply point capacity.

3.1.3 Optional LDZ Charge

The optional LDZ tariff is available, as a single charge, as an alternative to the standard LDZ system charges. This tariff may be attractive to large loads located close to the NTS. The rationale for the optional tariff is that, for large Network loads located close to the NTS or for potential new Network loads in a similar situation, the standard LDZ tariff can appear to give perverse economic incentives for the construction of new pipelines when Network connections are already available. This could result in an inefficient outcome for all system users.

The charge is calculated using the function below:

Invoice	Charge Code	p/peak day kWh/day
CAZ	881	$902 \times [(SOQ)^{-0.834}] \times D + 772 \times (SOQ)^{-0.717}$

Where (SOQ) is the Registered Supply Point Capacity, or other appropriate measure, in kWh per day and D is the direct distance, in km, from the site boundary to the nearest point on the NTS. Note that ^ means “to the power of ...”

Further information on the optional LDZ tariff can be obtained from the pricing team via email at

pricing.team@sgn.co.uk

3.2 LDZ Customer Charges

For supply points with an AQ of less than 73,200 kWh per annum, the customer charge is a capacity charge. For supply points with an AQ between 73,200 and 732,000 kWh per annum, the customer charge is made up of a fixed charge which depends on the frequency of meter reading, plus a capacity charge based on the registered supply point capacity (SOQ).

For supply points with an AQ of over 732,000 kWh per annum, the customer charge is based on a function related to the registered supply point capacity (SOQ).

The unit charges and charging functions used to calculate customer charges to directly connected supply points are as follows:

LDZ Customer Capacity Charges

Charge Code	CCA
Charge Band (kWh/annum)	p/peak day kWh/day
Up to 73,200	0.1537
73,200 to 732,000	0.0050
>732,000 kWh	$0.1034 \times SOQ^{-0.2100}$

In addition to the above, the following fixed charge applies to supply points with an AQ between 73,200 and 732,000 kWh:



LDZ Customer Fixed Charges

Charge Code	CFI
Supply Point Fixed Charge	Fixed Charge p/day
Non-monthly read	42.4509
Monthly read	45.2012

3.3 Other Charges

Other Charges include administration charges at Connected System Exit Points, Shared Supply Meter Points and Interconnectors.

3.3.1 Connected System Exit Points

A CSEP is a system point comprising one or more individual exit points which are not supply meter points. This includes connections to a pipeline system operated by a Gas Transporter other than Scotland Gas Networks.

The calculation of LDZ charges payable for shipping to CSEPs is explained in section 2.1.2.

3.3.2 Supplier of Last Resort Charges

Due to the volatility in the gas market and significant increases in wholesale gas prices throughout 2021, particularly in the second half of the year, there has been a significant number of Suppliers failures. As Ofgem has an obligation to ensure gas continues flowing for all customers, they operate the Supplier of Last Resort (SoLR process). This allows other Suppliers to bid for the customer base of the failed Supplier and if successful and subject to approval from Ofgem, claim associated costs from the wider industry.

It is the responsibility of Scotland Gas Network to recover the costs incurred by the SOLR provider and to pass those onto the new Supplier as set out under Standard Special Condition A48 of the transportation licence. Scotland Gas Network collects these costs on a volumetric basis as guided by UNC modification 0797. The SoLR costs impacting 2024/25 charges are £0.6m. These costs are a straight passthrough therefore only reflect the level of costs DNs need to subsequently pass onto the wider shipper community.

LDZ Supplier of Last Resort Charges

Charge Code	LRD & LRI
Supply Point Volume Charge	Daily Rate p/p KWh
Domestic	0.0009
I&C	-

3.3.3 LDZ System Entry Commodity Charge

The methodology relating to Distributed Gas Charging Arrangements as set out in Uniform Network Code Modification 0391 and approved by Ofgem in September 2012 and implemented from 1st April 2013. The LDZ System Entry Commodity Charge reflects the operating costs associated with the entry of the distributed gas and the benefits in terms of deemed NTS Exit and distribution network usage. The rate associated with the LDZ System Entry Commodity Charge is calculated on a site by site basis.



LDZ System Entry Commodity Rate

Site Name	GEMINI Reference	Distributed Gas Commodity Rate(p/kWh)
Aberdeen Conference Centre	TECAOS	0.0876 (credit)
Crofthead Farm	CROFOS	0.1035 (credit)
Brewdog	BREWOS	0.1034 (credit)
Beyside IP Portgordon*	POG2OS	0.0876 (credit)
Coreside HP Port Gordon	COREOS	0.0159 (credit)
Tynetside HP Portgordon	TYNTOS	0.0159 (credit)
Grissan Girvan Ladywell HP	GIR1OS / GIR2OS	0.0160 (credit)
Grissan Girvan Seaside HP	SEASOS	0.0160 (credit)
Mains of Keithnick	COUPOS	0.1032 (credit)
Grissan Riverside	RIVEOS	0.0878 (credit)
Charlesfield St Boswells	BOSWOS	0.1034 (credit)
Dunnswood Road Cumbernauld	DUNNOS	0.1035 (credit)
East Memus Farm	CARNOS	0.1035 (credit)
Foveran / Savock Farm	FAVROS	0.1035 (credit)
Lockerbie Biomethane	LOKIOS	0.0877 (credit)
Moray Hill Farm / Tornagrain	MORYOS	0.0875 (credit)
Peacehill Farm	PEACOS	0.0876 (credit)
Peterhead	DOWNOS	0.0876 (credit)
Portside IP Portgordon*	PORGOS	0.0876 (credit)
Tambowie Farm	TAMBOS	0.1035 (credit)
Skeddoway Farm	SKEDOS	0.1035 (credit)
Strathcathro	STRCOS	0.0875 (credit)
Tornagrain HP	MOR2OS	0.0160 (credit)
Firthside Invergordon	FIRTOS	0.0876 (credit)
Pierside Invergordon	PIEROS	0.0876 (credit)
Oban LNG Medium Pressure	OBIG	0.0672 (credit)
Campbeltown LNG Low Pressure	CAM1	0.1766 (credit)
Thurso LNG Medium Pressure	THU1	0.0757 (credit)
Wick LNG Medium Pressure	WIC1	0.0783 (credit)

*Site forecast to migrate to SGN high pressure (HP) network in 2024. Tariff will be re-calculated from the point the site migrates from the SGN IP network to the SGN HP network.

3.3.4 Distribution Network (NTS) Exit Capacity Charge (ECN)

Following the implementation of Uniform Network Code (UNC) modification 0195AV industry arrangements for the charging of NTS Exit Capacity costs changed on the 1 October 2012. National Grid Transmission invoice gas Distribution Networks (DNs) for booked NTS Exit Capacity and DNs will invoice gas shippers in line with DNPC06 ("Proposals for LDZ Charges to Recover NTS Exit Capacity Charges).

From October 2020, the calculation of these charges was changed under UNC modification 0678A. National Grid Transmission new charging methodology will impact DN's recovery of exit capacity costs from April 2021/22. These costs are a straight passthrough therefore only reflect the level of costs DN's incur.

The National Grid charging methodology moved from a Long-Range Marginal Cost (LRMC) charging methodology to a Postage Stamp approach. The biggest impact of which, means instead of individual charging rates for each offtake, NTS now charge all exit points across the UK the same price irrespective of geographical location. This has caused a significant increase in charging rates in Scotland for the year 2021/22. In prior years Scotland's location in relation to large network entry points brought about markedly low charging rates.

Exit Capacity Charges relating to SIU's:

The four Scottish Independent Networks located at Oban (LO), Thurso (LT), Wick (LW) and Campbeltown (LC) are classified as distinct Exit Zones within the Sites and Meters database although the NTS Exit Capacity is now booked at the Isle of Grain following the closure of both Avonmouth and Glenmavis NTS LNG Offtakes. The ECN rates for the four SIU Exit Zones reflect the distinct network at Stranraer is also classified as a separate Exit Zone (LS) within the Sites and Meters database.

The ECN charges for Scotland Gas Networks are detailed in the table below:

Invoice	Charge Code
LDZ Capacity	ECN

Exit Zone	ECN Charge Rate (p/peak day/kWh/day)
SC01	0.0154
SC02	0.0161
SC04	0.0164
LC	0.0161
LO	0.0161
LT	0.0161
LW	0.0161
LS	0.0156

3.4 Demand impact

Each year Ofgem directs distribution networks to recover Allowed Revenue through their transportation charges. To ensure the recovery of charges are stable and predictable; the majority of the revenue (c.95%) is recovered through capacity charges via calculated SOQ. Each year distribution networks receive a forecast of the SOQ for the forthcoming year from which the revenue is recovered.

Year on year movement in demand will have an impact on charging rates. Decreases in demand result in an increase in rates (less demand to recover the revenue from), similarly increased demand will result in a reduction in rates.

Over the past 18 months the industry has seen a significant reduction in demand, mainly resulting from the high prices of wholesale gas. The below table shows the SOQ levels used for 2023/24 and 2024/25 tariffs. The below table is purely for illustrative purposes and is intended to show the direction of travel for demand over the past year. Due to various licence conditions and obligations that networks are required to adhere to when recovering revenue, there is no direct correlation between the below % movements and the demand impact shown on page 2 of this document e.g., a 10% decrease in SOQs will not necessarily result in a 10% increase in rates, however, they are inherently linked in their impact.

Charge Band (KWh/annum)	2023/24 KWh/day SOQ	2024/25 KWh/day SOQ
Up to 73,200	186,581,391	165,770,463
73,200 to 732,000	35,562,849	33,485,791
> 732,000	115,679,927	115,942,751